

Paying off: Industry operators will need to adjust to the trend toward electronic services

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IBISWorld Industry Report 54121d Tax Preparation Services in the US

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About this Industry

Industry Definition

Firms in this industry provide tax return preparation services to individuals but do not offer accounting, bookkeeping, billing or payroll process services. Although the offices of certified public accountants

(CPAs) are excluded from this industry, basic knowledge of tax law and filing requirements is required. Online tax return providers (see IBISWorld report OD4549) do not fit within the scope of this industry.

Main Activities

The primary activities of this industry are

Income tax compilation services
Income tax return preparation services
Other tax return preparation services

The major products and services in this industry are

Basic tax preparation
Full-service tax preparation
Standard tax preparation
Tax-related financial products

Similar Industries

52393 Financial Planning & Advice in the US

The industry comprises companies that provide financial planning, financial advice and wealth management to individuals and business clients.

54121b Payroll & Bookkeeping Services in the US

This industry offers payroll and bookkeeping services.

54121c Accounting Services in the US

This industry includes the offices of CPAs, which offer a range of financial services, including the preparation of financial statements and the auditing of accounting records.

56141 Document Preparation Services in the US

This industry provides a variety of document preparation services, including word processing and document editing.

Additional Resources

For additional information on this industry

www.nactp.org
National Association of Computerized Tax Processors
www.natptax.com
National Association of Tax Professionals
www.nsacct.org
National Society of Accountants

Industry at a Glance

Tax Preparation Services in 2019

Key Statistics Snapshot

Revenue

\$11.3bn

Annual Growth 14–19

3.4%

Annual Growth 19–24

1.1%

Profit

\$2.3bn

Wages

\$3.8bn

Businesses

119,035

Market Share

Intuit Inc.

22.1%

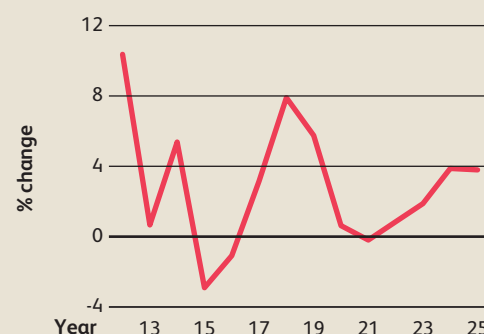
H&R Block Inc.

19.6%

Revenue vs. employment growth

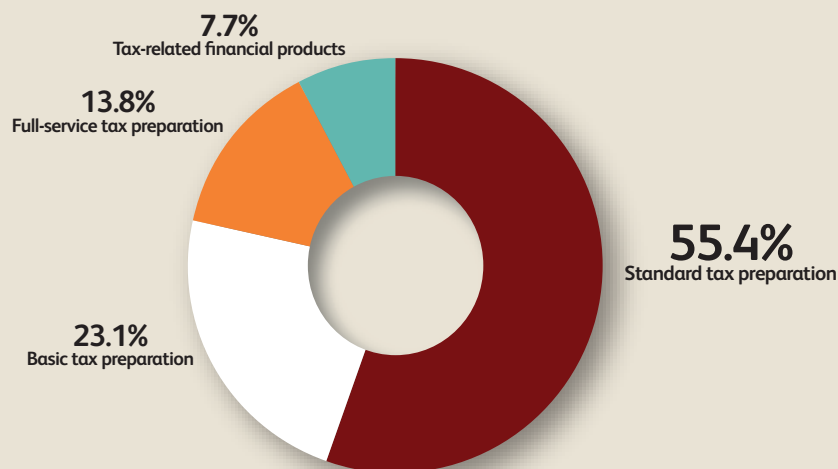


Corporate profit



SOURCE: WWW.IBISWORLD.COM

Products and services segmentation (2019)



SOURCE: WWW.IBISWORLD.COM

Key External Drivers

Corporate profit

Per capita disposable income

S&P 500

Percentage of services conducted online

p. 4

Industry Structure

Life Cycle Stage	Mature	Regulation Level	Medium
Revenue Volatility	Medium	Technology Change	Medium
Capital Intensity	Low	Barriers to Entry	Low
Industry Assistance	Low	Industry Globalization	Low
Concentration Level	Medium	Competition Level	High

FOR ADDITIONAL STATISTICS AND TIME SERIES SEE THE APPENDIX ON PAGE 33

Industry Performance

Executive Summary | Key External Drivers | Current Performance
Industry Outlook | Life Cycle Stage

Executive Summary

Operators in the Tax Preparation Services industry assist individuals and businesses with filing their tax returns but do not provide accounting, bookkeeping, billing or payroll process services. Over the five years to 2019, the industry has posted solid growth as the unemployment rate has fallen, causing more Americans to file tax returns. Additionally, as per capita disposable income has risen, more consumers have had the resources to afford bringing their taxes to tax professionals. When individuals have more income, they are taxed more and have greater

services, such as e-filing and the US Internal Revenue Service's Free File. Major industry players have adapted to this digital environment by changing their price structure and business model. Many companies now offer their own price-competitive electronic options to attract customers while offering integrated advice and value-added services for additional fees. This trend, combined with labor-saving technologies, has boosted profitability for the industry, with the average profit margin (measured as earnings before interest and taxes) expected to reach 20.3% of revenue in 2019.

The industry has posted solid growth as the unemployment rate has fallen

opportunities for a significant return. With more money in their pockets, consumers are more willing to purchase industry services to maximize their refunds. Overall, industry revenue is projected to grow at an annualized rate of 3.4% over the five years to 2019. This includes an expected 2.7% jump in 2019, bringing total revenue to \$11.3 billion.

The industry landscape has evolved during the current period, creating more options for consumers to prepare their tax returns using electronic filing systems. Consumer preferences are increasingly trending toward online

Although improving economic conditions are expected to support industry revenue growth over the five years to 2024, some operators' performances will be stunted as online providers threaten traditional brick-and-mortar establishments that are unable to adapt to the changing landscape. More consumers are expected to complete their tax returns online as electronic filing software becomes more user-friendly and customized for individuals with different tax filing needs. Additionally, the tax system overhaul passed in 2018 is anticipated to empower more individuals to file taxes on their own. Consequently, the industry's expansion is projected to decelerate, with growth falling to an estimated annualized 1.1% to reach \$12.0 billion over the five years to 2024.

Key External Drivers

Corporate profit

Corporate profit is calculated by subtracting the value of the following from revenue: wages after inventory valuation and capital consumption adjustments. A higher profit margin gives a company more to spend on various areas such as tax preparation services. In 2019, corporate profit is expected to increase, representing a potential opportunity for the industry.

Per capita disposable income

Per capita disposable income determines an individual's ability to purchase goods or services. It is calculated by taking income earned from all sources (wages, government transfers, rental income etc.) minus taxes, savings and some non-tax payments (e.g. fines, forfeitures and donations) and dividing by the total US population. Increases in per capita

Industry Performance

Key External Drivers continued

disposable income suggest that employment is on the rise and that, potentially, more individuals will require services to file their taxes. In 2019 per capita disposable income is expected to increase.

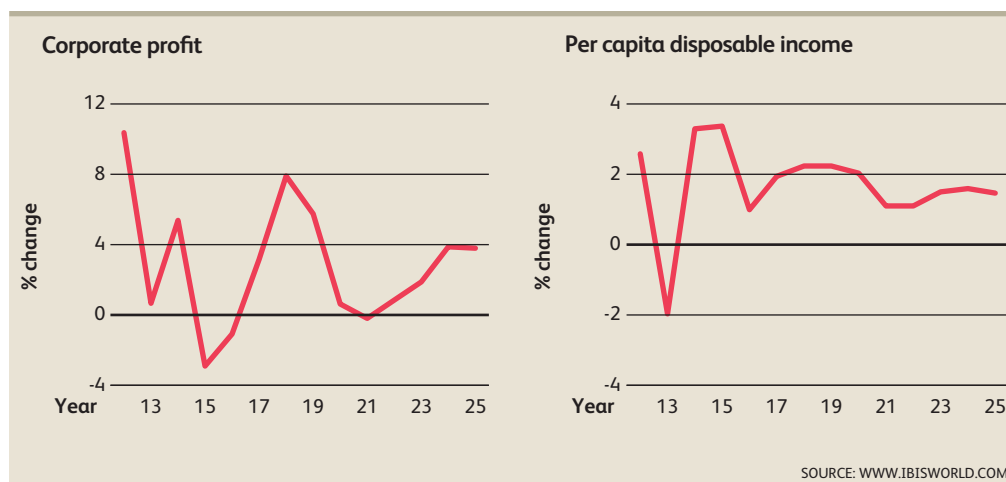
S&P 500

The Standard & Poor's 500 stock index (S&P 500) is a commonly cited indicator of stock market performance. It is a scaled average of 500 large-capitalization common stocks in the United States. The companies included in the index are from various sectors across the economy, including oil, finance, telecommunications, retail and manufacturing. When the S&P 500 increases, it suggests companies are

performing well, leading to an increase in revenue and profit. In 2019, the S&P 500 is expected to increase.

Percentage of services conducted online

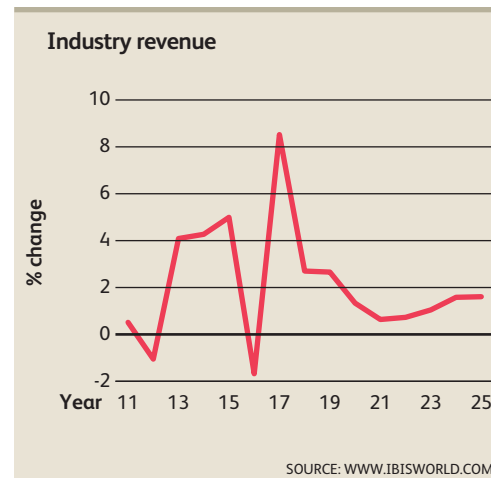
The percentage of services conducted online represents the number of consumers and businesses that use the internet for services that are paid for in a physical form. As more consumers use online services, the industry is expected to increasingly lose business to providers of online electronic tax filing services. Operators that adapt to these changing conditions will stand to benefit, though industry revenue will decline overall. The percentage of services conducted online is projected to grow in 2019, posing a potential threat to the industry.



Industry Performance

Current Performance

The Tax Preparation Services industry has fared well over the five years to 2019. Improving economic conditions during the five-year period have led to increasing employment opportunities; as more individuals entered the workforce, more people needed to file taxes, broadening the industry's consumer base. Additionally, per capita disposable income has risen throughout the current period. While some households with simpler taxes that are easier to prepare have transitioned to using free e-filing services or less costly online software outside of the scope of the industry, more consumers with higher potential tax refunds have sought out the services of trusted tax professionals to maximize their refund. Meanwhile, major players have generated new revenue streams by adapting their business models to the digital



environment, boosting industry growth. Overall, IBISWorld expects industry revenue to grow at an annualized rate of 3.4% over the five years to 2019 to total \$11.3 billion, including an expected 2.7% boost in 2019.

Electronic filing

Since 1986, the Internal Revenue Service (IRS) has offered taxpayers the option of electronically filing their tax returns. Known as e-file, this service enables taxpayers to tax documents through the internet, bypassing the need to submit any paper documents. Consumers are increasingly using online services due to stronger internet penetration, faster broadband speeds and the general convenience of completing tasks online. Over the past five years, the percentage of services conducted online by consumers and businesses has increased an annualized 11.0%. As internet use has become increasingly widespread, the level of e-filing has steadily increased. According to IRS statistics, close to 30.0% of tax returns were e-filed in 2000, growing to almost 70.0% in 2010 and more than 85.0% in 2015. For the 2017 tax season (latest data available), the proportion of e-filed tax returns reached 92.0%, with only 8.0% of returns filed on paper.

Using online filing software is also more affordable and less time-consuming for individuals. Many industry operators sell tax preparation software to consumers or offer software online for free, with the option for clients to purchase add-on services. Entities like the IRS, which are not relevant to this industry, offer free tax-filing services online as well. The convenience of filing online has increased the number of consumers who attempt to prepare their own taxes. Moreover, e-filing is free for taxpayers with gross adjusted incomes of less than \$66,000 using the IRS's Free File service, and therefore, e-filing has changed the industry landscape by encroaching on this industry's traditional revenue base.

Nonetheless, industry players that have adapted their business model to incorporate the provision of electronic filing software have done well over the past five years. Industry players such as

Industry Performance

Electronic filing continued

H&R Block Inc. (H&R Block) provide free online filing options to customers, with the intention of attracting demand for add-on services and offline advice and services. Online products mostly cater to customers with the simplest tax return requirements, and many individuals progress to offline service offerings upon finding their tax filing requirements to be more complex than anticipated. These customers include those who own investment property, work multiple jobs, require itemized deductions and those

that own foreign assets. More companies have increased their online offerings over the past five years, and those who manage this transition best are expected to maintain strong demand in 2019 and beyond. Additionally, relatively new industry players, such as Intuit Inc. (Intuit), have provided even stronger competition with electronic filing options, which have reduced the need for many individuals to visit brick-and-mortar establishments and pay for personal services.

Refund anticipation checks

One add-on service offered by major operators has been refund anticipation loans (RALs), which are short-term consumer loans secured by a borrower's expected tax refund. RALs have been a highly controversial type of loan over the past two decades. The Consumer Federation of America and National Consumer Law Center have opposed RALs because of their high-profit, low-risk nature, which is directly marketed toward working, low-income individuals. RALs enable individuals to access their tax returns immediately; however, consumer agencies have argued that individuals receiving loans do not fully understand the high interest rates that come with the loans, which can be as much as a 100.0% annual percentage rate.

Regulators have become increasingly tough on the provision of RALs over the past five years; major companies such as H&R Block have been unable to provide them, as restrictions have been placed on

Regulators have become increasingly tough on the provision of RALs over the past five years

their providers, like HSBC. For example, Jackson Hewitt, one of the largest tax preparation companies in the United States, was unable to offer RALs, contributing to the company's poor performance leading up to 2011, when the company filed for bankruptcy and had its stock delisted. Nonetheless, since 2013, RALs have effectively returned but are now branded as refund anticipation checks (RACs). This enables consumers to access their returns more quickly, but they are generally required to pay higher fees directly out of their refunds. Nevertheless, further efforts for industry regulation remain, potentially impacting the industry's future performance.

Increasing profit

Tax preparers rely on high volume and quick turnaround to increase revenue. As industry players adapted their pricing strategies to the electronic industry environment, profit margins have experienced a healthy increase.

Industry operators that are able to successfully implement online software offerings are able to post very high profit margins due to extremely low variable costs, high levels of capital intensity and a decreasing reliance on

Industry Performance

Increasing profit continued

labor spending. For instance, players such as Intuit are able to post profit margins in excess of 60.0%, as product development and marketing represent relatively low expenses.

Similarly, with the rate of unemployment falling over the past five years, the number of tax returns filed has increased, supporting stronger demand for tax preparation services.

Nevertheless, tax preparation demand is generally very seasonal. Although filing for an extension is possible, the filing deadline for most individuals is April 15. While some firms operate only on a seasonal basis, large players typically operate at a loss between May and December. The seasonal nature of the Tax Preparation Services industry, coupled with its low barriers to entry, makes it ideal for individual

nonemployers working on a part-time basis; close to 85.0% of industry operators do not have a payroll. The industry's seasonality also causes relatively low average wages for operators. Since most firms are active for only a few months each year, the average industry wage is estimated at just over \$12,000 in 2019.

The number of enterprises operating in the industry is estimated to grow moderately during the current period amid steady demand for industry services, rising an estimated annualized 1.7% over the five years to 2019 to total 119,035. Comparatively, labor-saving technologies have partially cut into the need for employees, leading the number of industry workers to rise at an annualized rate of 1.6% during the same period to reach 314,413 workers.

Industry Outlook

Over the five years to 2024, revenue for the Tax Preparation Services industry is expected to continue its upward trajectory. The national unemployment rate is anticipated to rise marginally over the next five years to reach 4.8% in 2024. While this is a slight bump, employment is expected to remain historically strong, and the number of employees in the United States is expected to grow each year during the outlook period, providing a strong supply of customers for tax preparation businesses. Meanwhile, major players in the industry have now responded to consumers increasingly using online services instead of visiting brick-and-mortar locations. These companies have adjusted their price structure and business model to suit the e-filing environment and now offer electronic services to compete with new industry players on the basis of price while also offering additional advice via integrated online and offline service offerings. As a result, industry profit

Major players in the industry have responded to consumers increasingly using online services

margins will likely improve as companies succeed in generating new revenue streams. While the tax system overhaul passed in 2018 is expected to cause some confusion for clients and lead to more consumers seeking out industry operators' services, simplifications to the code are anticipated to lead those requiring basic services to instead turn to tax preparation software. As a result, although the market for in-person tax preparation services is not expected to disappear, it will be largely replaced by continually growing free online services and self-preparation offerings. Overall, the industry is projected to grow at an annualized rate of 1.1% over the five years to 2024 to total \$12.0 billion.

Industry Performance

Electronic filing options

The proportion of services conducted online by consumers and businesses is projected to increase from 18.5% in 2019 to 23.2% in 2024. The rapid adoption of smartphones and tablets also presents industry operators with new threats. Over the five years to 2024, the number of mobile internet connections is forecast to grow dramatically. Therefore, the development of electronic-filing options that can be completed through these devices will create pressure for brick-and-mortar operators.

To be successful, industry businesses will need to focus on strategies to integrate online and offline service offerings or, alternatively, defend their turf from the encroachment of external online competitors. Firms must continue to adapt to shifting consumer needs and develop new product introductions and enhancements. For example, some firms offer smartphone apps that assist

Industry businesses will need to focus on strategies to best integrate online and offline service offerings

customers with creating detailed records of deductible expense items throughout the year. Brick-and-mortar firms that provide electronic filing will need to design their online products to entice customers toward offline service offerings. To do this, firms will target their service offerings at different markets, offering increasingly specialized and tailored solutions to justify higher prices. Technological change also presents a competitive advantage for innovative firms that can use technology internally to streamline costs. As a result, industry profitability is expected to rise slightly due to a reduction in variable costs.

Provider resistance

Industry players that provide personalized services are expected to increase their offering of new products over the next five years in response to the burgeoning performance of electronic filing providers. This will include options such as offering free electronic state income tax filing to bring more potential clients in the door. Industry operators will also increasingly provide their staff with better tax filing software to use while helping customers. As a result, companies will be able to pay proportionately less in wages. Moreover,

employees will require less of a strong understanding of taxation law as computers further fill that gap.

As a new wave of industry operators seeking to establish a customer base in both the brick-and-mortar and online spaces enters the industry, the number of enterprises is expected to rise at an annualized rate of 1.6% to 128,656 during the outlook period. Similarly, the number of industry employees is projected to grow at an annualized rate of 1.3% to 335,238 workers over the five years to 2024.

Other financial products

Refund anticipation checks (RACs) are expected to become more prevalent over the next five years as traditional tax providers look for other sources of revenue. With RACs, businesses provide instant returns to consumers and instead

take tax preparation fees out of their refunds. Other financial products, such as prepaid debit cards, are expected to become increasingly popular. For example, H&R Block Inc. currently provides the H&R Block Emerald Prepaid

Industry Performance

Other financial products continued

MasterCard, which enables clients to receive their tax returns from the IRS directly on a prepaid debit card that can be used for everyday purchases.

Increasing regulation

At present, only seven states regulate tax preparation services, with many operators having limited expertise and offering services relatively informally. The IRS estimates that close to half of prepared tax returns are filed by unregulated, fly-by-night preparers. These returns generally contain errors, such as failing to claim available deductions, claiming deductions mistakenly and failing to report income correctly, and reportedly relate to a high incidence of fraud, particularly regarding

Simplifications made to the tax code may empower citizens to file taxes on their own

the Earned Income Tax Credit (EITC). However, simplifications made to the tax code as part of the 2018 overhaul may empower more citizens to file taxes on their own, reducing demand for operators' services.

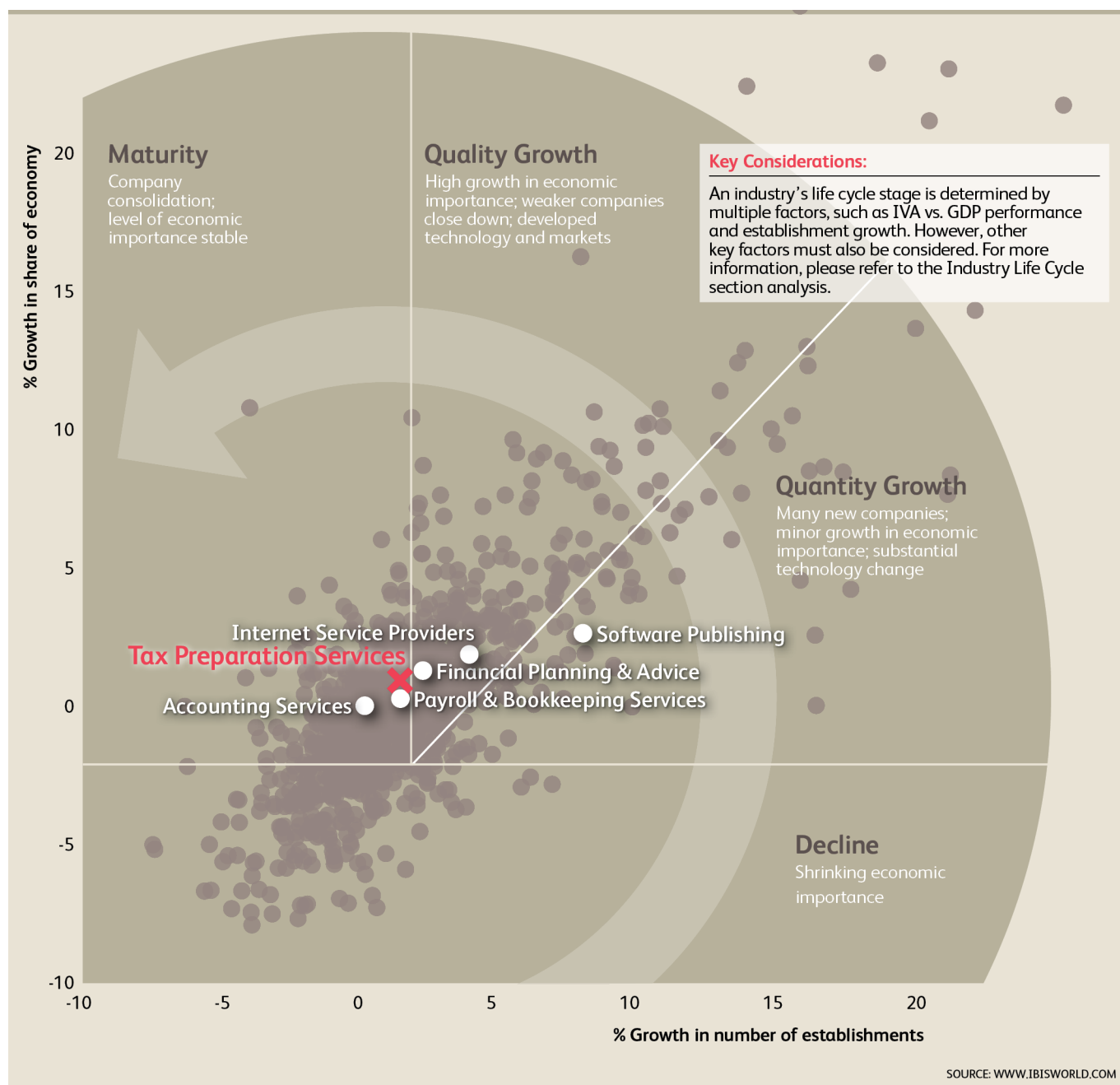
Industry Performance

Life Cycle Stage

The industry is growing slower than the overall economy

Technological change is becoming increasingly important

The industry has wholehearted market acceptance



Industry Performance

Industry Life Cycle

This industry
is **Mature**

Over the 10 years to 2024, the Tax Preparation Services industry is expected to expand in line with growth in the overall economy, which is common for mature industries. IBISWorld estimates that the industry's contribution to the economy, measured by industry value-added (IVA), will increase at an annualized rate of 3.0%; similarly, US GDP is forecast to grow an annualized 2.0% during the same 10-year period. Although the industry has experienced long-term growth, it has slowed in recent years because market saturation has been reached and new online players are instead beginning to absorb market segments within this industry, to the particular detriment of small nonemployers; this is characteristic for industries in the mature life cycle stage.

The most notable change over the past five years has been the development of electronic tax filing systems that are less costly and more convenient for users. Online competitors external to this industry are capturing a greater share of

industry revenue due to e-file product offerings. Technological change has become an increasingly important aspect of the industry as consumers turn online for tax solutions and even traditional tax preparers use more computer systems to complete work.

Operators have also tried to expand the number of financial products that they offer by shifting away from refund anticipation loans to refund anticipation checks. These trends are expected to continue over the next five years, causing the number of firms entering the industry to slow.

This industry has wholehearted market acceptance, with no untapped geographic markets or types of buyers. Tax preparers provide a service that will be used and needed in the foreseeable future. Tax preparation is mandatory for individuals who earn income, and unless consumers turn to filling their own taxes or using professional accountants, the industry will continue to experience steady demand.

Products & Markets

Supply Chain | Products and Services | Demand Determinants
Major Markets | International Trade | Business Locations

Supply Chain

KEY BUYING INDUSTRIES

9901 Consumers in the US
Consumers use tax preparers for state and federal income tax preparation services.

KEY SELLING INDUSTRIES

51121 Software Publishing in the US
Although the industry competes with software publishers, small operators rely on professional tax software to provide electronic filing services.

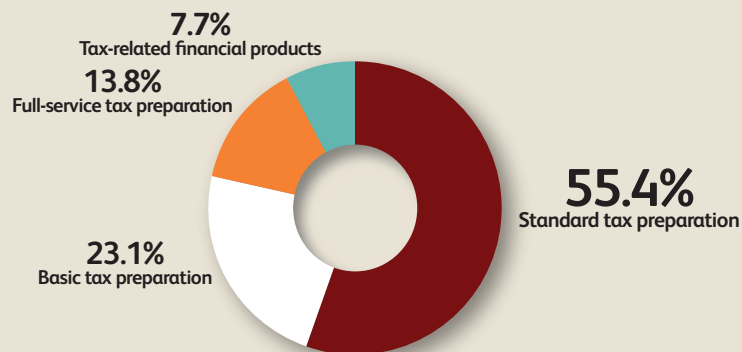
51711d Internet Service Providers in the US
Industry operators use internet service providers for electronic filing.

54111 Law Firms in the US
Tax preparation firms need lawyers when facing litigation, including arbitrations and class actions.

54189 Promotional Products in the US
Industry operators use promotional products to promote their services.

Products and Services

Products and services segmentation (2019)



Total \$11.3bn

SOURCE: WWW.IBISWORLD.COM

Operators in this industry provide tax return preparation services without also providing accounting, bookkeeping, billing or payroll processing. Consequently, this industry primarily provides consumer tax services, preparation and filing. In addition to tax preparation, the industry's largest firms generate revenue through other avenues, including franchise fees and financial service products. Franchise fees are obtained directly from franchise operators for royalties and advertising.

Consumers use tax preparers to make a necessary task simple, reduce their tax bill and increase their tax refund. In general, the amount paid by consumers relates to the complexity of the tax return they file. The most basic tax preparation services, which include electronic filing and federal income tax returns, are offered free of charge by many online service providers and for a nominal rate at retail locations. Regardless, more than 55.0% of American taxpayers use a paid tax preparer.

Products & Markets

Products and Services continued

Basic tax preparation and financial products

Basic tax preparation services are expected to generate 23.1% of industry revenue in 2019. Basic tax returns are typically limited to the most common forms, including Internal Revenue Service (IRS) form 1040; additional services needed by many consumers, such as state income tax preparation, are provided for an additional charge. Over the past five years, more tax preparers have started to offer basic services for free as the federal government has pushed to make electronic filing accessible to all taxpayers. Although this has reduced the proportion of revenue derived from basic services, it has spurred industry operators to cross-sell financial service products, including refund anticipation loans and refund anticipation checks. While partner lenders provide these services, the revenue from borrowers' fees is typically split between the tax preparation firm and the lender. Some industry operators generate as much as 20.0% of their total revenue from these activities.

Standard tax preparation

Many individuals' taxes are more complicated than the basic service level. Industry operators increase prices for

these customers, so a small number of individuals account for a great amount of revenue. IBISWorld estimates that more than half of consumers opt for standard tax preparation services, which generates an expected 55.4% of industry revenue in 2019. Taxpayers who are filing deductions or claiming dependents often use standard tax preparation services. These complexities increase the number of forms that need to be filed by a tax preparer. For example, to file deductions, the IRS Schedule A form needs to be prepared.

Full-service tax preparation

Full-service preparation is more expensive than basic and standard service packages, which limits the number of individuals using this product segment. Overall, IBISWorld estimates that 13.8% of industry revenue is derived from full-service tax preparation. The use of full-service tax preparation is limited to the number of people who actually need the provided support. This segment targets those with the most complicated tax filings, including self-employed individuals or people who receive income from rental properties. In addition to a greater number of forms that are prepared, tax preparers in this segment generally provide support if the customer is audited by the IRS.

Demand Determinants

In general, people use the Tax Preparation Services industry because operators simplify a task most consumers must complete annually. Furthermore, tax preparers have special knowledge that can maximize the amount of money consumers save on taxes and receive from tax refunds. According to the IRS, a majority of US tax returns are prepared by a paid professional. All individuals above a certain income level are required to file a tax return. Although the income threshold depends on filing status, age

and the type of income an individual receives, tax preparers file state and federal income taxes for all socioeconomic groups.

Industry operators rely on the ability of tax collection agencies, such as the IRS and state governments, to send out tax forms to taxpayers, which increase demand for industry services. Individuals must file their taxes on or before April 15 of each year. Consequently, demand for this industry's services is highly seasonal as most consumers file their taxes

Products & Markets

Demand Determinants continued

between January and April. Many firms that provide tax services operate at a loss during the rest of the year. However, operators have branched out, providing additional services to generate revenue during the industry's slow months.

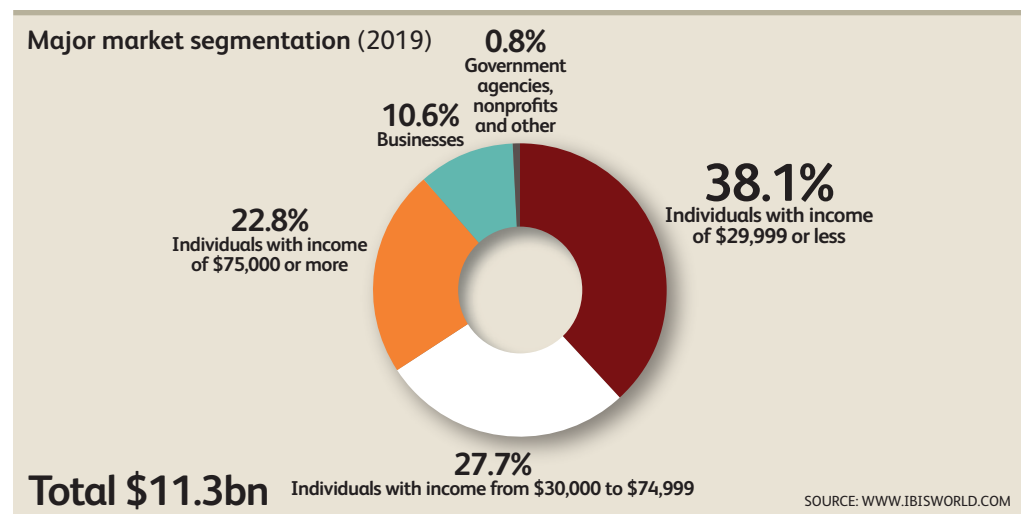
Industry demand is also affected by general economic conditions, especially changes in the level of unemployment. A reduction in the number of people employed often results in fewer people being required to file for tax returns. Similarly, individuals with reduced income may attempt to complete their own taxes rather than hiring a professional to do so, or not file returns at all.

The IRS and state collection agencies often make changes to the tax return preparation and filing process. Many of these changes make the process more complicated. For example, new

deductions for buying clean energy appliances or hybrid vehicles require additional forms. Rule changes, including those related to tax brackets and capital gains taxes, boost demand by creating additional confusion for the consumer.

However, tax collection agencies have also tried to make the process easier. This weakens demand for the industry because more individuals decide to complete their own taxes when the process becomes simpler. Additionally, the availability of electronic alternatives aimed at the consumer market has posed a problem for smaller competitors. Some states offer free electronic filing services for individuals who qualify. Nevertheless, some operators have benefited from the move toward online filing because they offer electronic services in addition to retail operations.

Major Markets



The Tax Preparation Services industry's major markets are divided by adjusted gross income (AGI), which is used to determine an individual's income tax liability. Most of the industry's business comes from households and individuals and the plurality of federal income tax returns filed in the United States are for

individuals with AGIs of less than \$30,000. However, these consumers are often more likely to use free online tools or free e-filing provided by the IRS, instead of paying for industry services. In addition, the industry provides tax services to businesses, government agencies and nonprofit organizations.

Products & Markets

Major Markets continued

Individuals with income less than \$30,000

Consumers with income of less than \$30,000 are expected to account for 38.1% of industry revenue in 2019. Consumers in this segment are often targeted in retail locations. Some large operators have partnered with shopping malls and national chains, such as Walmart, to target this demographic. While this market primarily uses tax preparers to increase tax refunds, they are also more likely to employ a professional for the specialized skills required, as tax preparation can be fairly complicated. Individuals in this market are more price-sensitive than groups with higher levels of disposable income. As more companies have offered free electronic tax-filing services over the past five years, this price sensitivity has reduced the amount of revenue generated by this market.

Individuals with income from \$30,000 to \$74,999

IBISWorld estimates that individuals who earn between \$30,000 and \$74,999 are the most likely to use industry services. In 2019, this segment is expected to generate 27.7% of total industry revenue. A higher proportion of families file in this range than the other ranges and many are often looking for ways to maximize their tax return by leveraging child care tax credits and others associated with education and other expenses for children. This income range is also less price sensitive than the lower range and has more money to invest in industry services to turn around a higher tax return. While many in this range also have the technical savvy and education to do their own taxes, which makes them more likely to use industry competitors' products, their ability to afford industry services and willingness to spend to get a higher return makes them the industry's primary customers.

Individuals with income of \$74,999 or more

Individuals with AGIs of more than \$74,999 account for an estimated 22.8% of this industry's revenue. This market involves consumers with the most disposable income who are more likely to pay for a professional tax preparer. Furthermore, consumers in this market are more likely to have complicated taxes as a result of factors including home ownership and investment income. Such complications increase the value of having a professional perform the filing process. However, these households are also the most highly educated and are more likely to attempt to take care of their taxes on their own.

Businesses and other

The industry also provides tax preparation services to businesses, which are estimated to account for 10.6% of industry revenue in 2019. Tax preparation services are typically only used by small businesses that need assistance filing their own tax. Larger corporations tend to use accounting services (IBISWorld report 54121c), which also provide auditing and assurance services. This segment has remained steady over the past five years but can decline when the number of businesses falls.

Other customers

Other customers include nonprofit organizations and federal, state and local governments. These markets rarely use tax preparation services, instead favoring accounting services or internal departments. Over the past five years, this segment has remained relatively steady as a proportion of industry revenue as demand from these organizations tends to stay low but constant.

Products & Markets

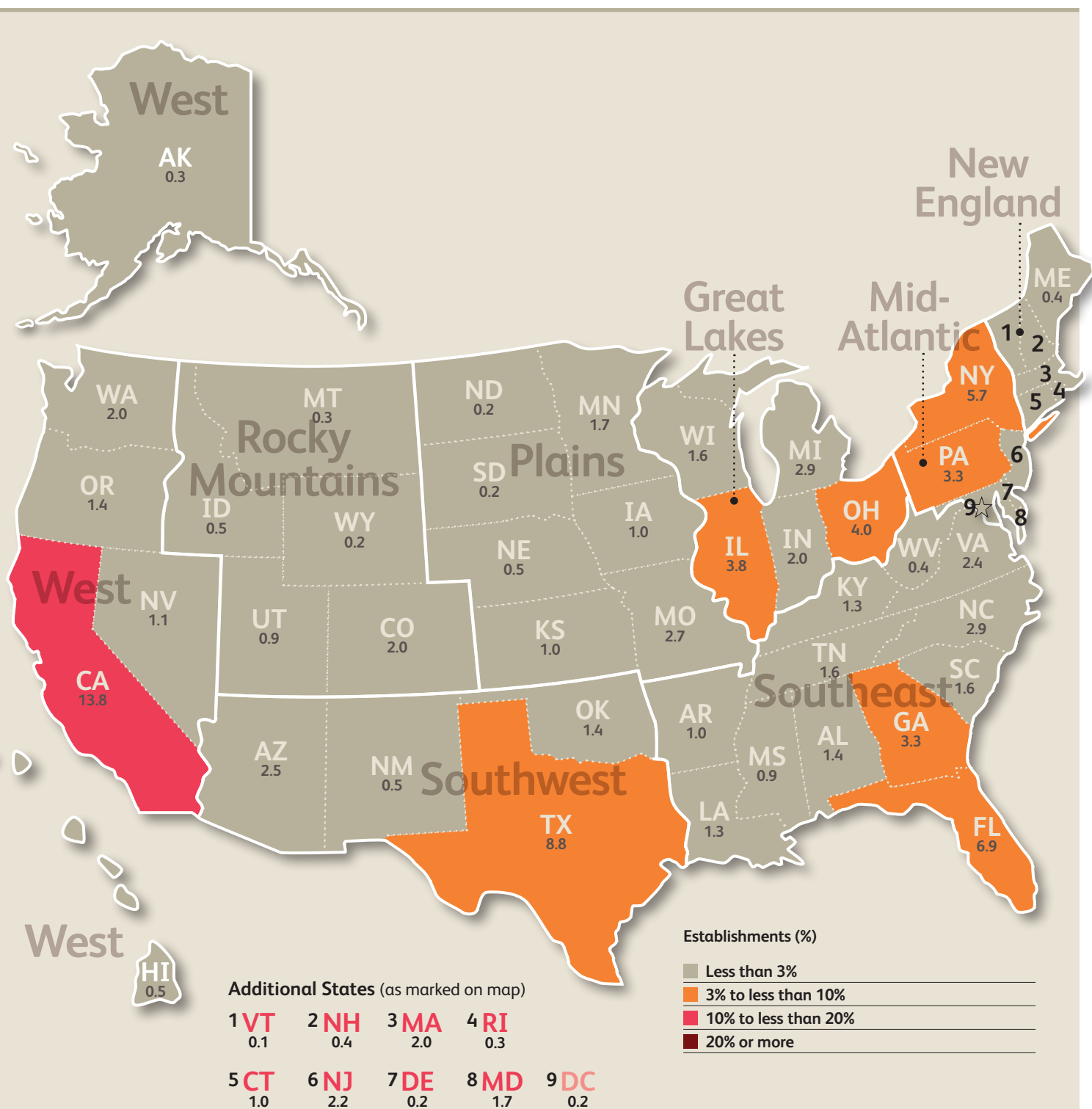
International Trade

International trade does not occur in the Tax Preparation Services industry due to the service-based nature of activities that tax preparers provide. Most firms in this industry are nonemployers that only have the capacity to perform services on a local basis. Furthermore, income tax laws

differ by states. These factors reduce the ability of firms to provide services across borders. H&R Block Inc., a major industry operator, has retail tax offices in Canada and Australia; however, the vast majority of the company's retail offices are in the United States.

Products & Markets

Business Locations 2019



SOURCE: WWW.IBISWORLD.COM

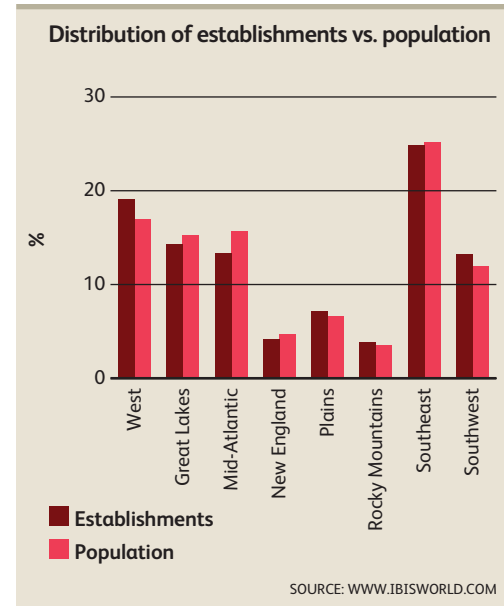
Products & Markets

Business Locations

Households in all socioeconomic groups across the United States use the services of tax preparers. Consequently, establishments and revenue for the Tax Preparation Services industry are distributed in line with regional population. Many people use the tax preparation firm nearest to them out of convenience. When an area is underserved, more firms move into that area to stake a claim in the market. Similarly, firms tend to move locations when competition is too high and profit margins begin to suffer.

Nearly 75.0% of operators in this industry are nonemployers that do not have the capacity or market power to provide services beyond their own neighborhood. While some of these firms are part of a national network, they primarily serve local consumers. However, large operators often partner with national retail chain stores. For example, Jackson Hewitt recently signed a contract to provide tax preparation services in Walmart locations throughout the United States.

The West region illustrates that industry establishments and revenue mirror population. The region accounts for an estimated 19.1% of employing establishments while containing 17.3% of the national population. Not surprisingly, the majority of demand within the West



region comes from California, which has the largest population of any US state. California is expected to contain 13.8% of industry establishments, which is slightly above its 12.1% share of the population.

As in many industries, the Southeast is home to more tax preparation establishments and employees than any other region. This is because the Southeast has a larger population than any other region in the United States. The Southeast accounts for an expected 24.9% of industry establishments, mirroring its 25.7% share of the national population.

Competitive Landscape

Market Share Concentration | Key Success Factors | Cost Structure Benchmarks
Basis of Competition | Barriers to Entry | Industry Globalization

Market Share Concentration

Level
Concentration in this industry is **Medium**

The Tax Preparation Services industry is highly fragmented, with nonemployers or small firms comprising the vast majority of operators. In 2019, IBISWorld estimates to be 43.0% of industry revenue will be captured by the three largest players. This includes major company H&R Block Inc. (H&R Block), which is composed of hundreds of small locations that are either company-owned or operate as a franchise. H&R Block is a market leader, controlling a significant share of the market due to its proliferation in major cities.

More than 80.0% of employer firms are estimated to have fewer than 10 employees. Furthermore, nearly 75.0% of firms operating in this industry are nonemployers. Many nonemployers offer their services on a part-time basis due to the seasonal nature of tax preparation services. These operators, which often rely on word-of-mouth, cannot charge as

much for their services. Consequently, nonemployers only account for less than one-third of industry revenue.

The industry has relatively low barriers to entry, which has prevented it from exhibiting a high level of concentration. Although large firms have reduced their branch offices, the number of establishments is expected to have increased modestly during the period as people have continued looking for alternative part-time income. However, the industry's barriers to entry have become higher due to an US Internal Revenue Service (IRS) requirement to file for a preparer tax identification number. While it is expected to remain relatively easy for a new firm to enter, this additional requirement has contributed to the slowing of the number of firms entering the industry. In addition, the IRS is advocating for further regulatory requirements, with a bill currently before Congress.

Key Success Factors

IBISWorld identifies 250 Key Success Factors for a business. The most important for this industry are:

Experienced work force

Experienced tax preparers can perform a larger volume of work, generating higher revenue through speed and efficiency.

Being part of a franchising chain

Operators that are part of a franchising chain can gain credibility among consumers through brand recognition.

Level of security provided for client data

Industry operators deal with a large amount of sensitive information. Operators need to ensure that the information is secure, especially when providing electronic filing services.

Provision of personalized services

Small players can gain a competitive advantage by developing a relationship with clients.

Must comply with government regulations

Tax preparers must comply with government regulations, including those related to client confidentiality and accuracy.

Having a loyal customer base

Having a loyal customer base is extremely important for operators because taxing agencies increasingly attempt to make tax preparation easier.

Competitive Landscape

Cost Structure Benchmarks

The cost structures of operators in the Tax Preparation Services industry vary based on a variety of factors. For example, companies that operate a franchise endure fees for royalties and marketing that a small player does not necessarily incur. Similarly, operators experience seasonal fluctuations and although a smaller player can close operations during slow months, larger firms do not have that luxury. As a result, the cost structures of major players are generally quite different than those of nonemployers, which account for more than 70.0% of industry operators.

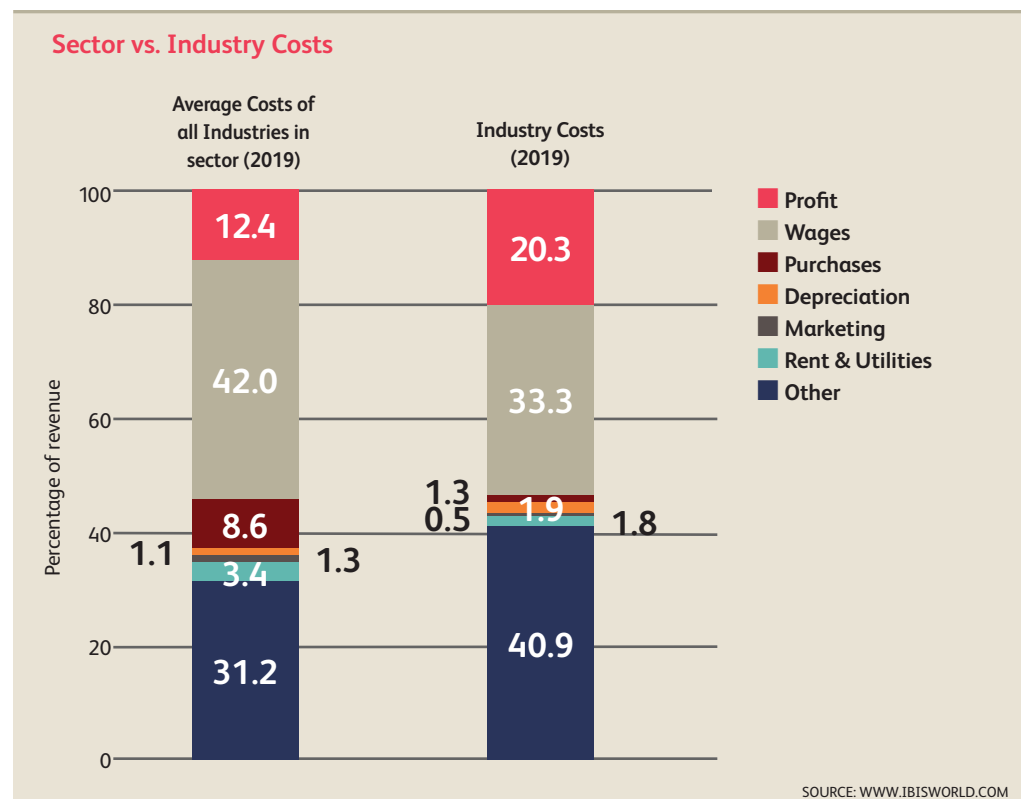
Wages

Wages are this industry's largest expense and are estimated to consume 33.3% of revenue in 2019. Wages represent the amount paid to employees for a variety of responsibilities, including corporate

administrative functions and tax preparation services. The employees of this industry are sometimes highly educated, with an understanding of tax laws and accounting. Despite this, however, the seasonal and part-time nature of tax preparation limits the average salary of the industry's workers. Overall, industry wages have decreased slightly as a proportion of revenue, down from 33.7% in 2014. However, earlier in the 2000s, wages accounted for as much as half of industry revenue; the industry has since adjusted to spending less on wages as a result of increased use of tax filing software, which has automated online tax filing.

Purchases

Purchases account for 1.3% of total industry revenue. Operators do not require any major investment in their offices beyond basic supplies.



Competitive Landscape

Cost Structure Benchmarks continued

Profit

Profit margins in the Tax Preparation Services industry are high. In 2019, IBISWorld estimates that the average industry profit margin, measured as earnings before interest and taxes, represents 20.3% of revenue. Profitability has improved significantly during the current five-year period, up from 14.0% in 2014, as operators focused on providing higher value services to businesses and those with moderately complex tax returns. Overall, profit margins for the industry fluctuate seasonally due to changes in demand throughout the year. Demand for tax preparation services typically peaks between January and April; as a result, many firms operate at a loss during the rest of the year, which diminishes the industry's annual returns. However, this factor is somewhat mitigated by the large number of small firms that only operate on a seasonal basis.

Depreciation

Depreciation is estimated to account for 1.9% in 2019, down from 3.7% in 2014.

Marketing

This industry has a large number of part-time operators that do not have the necessary resources to launch marketing campaigns. Many small operators rely on local advertising and word-of-mouth recommendations among consumers to promote their business. However, franchised operators spend a large amount of money on marketing expenses. These expenses are often included in franchise fees, including royalties, advertising and marketing. Marketing costs account for 0.5% of industry revenue in 2019.

Rent

Rent cost is estimated to be 1.7% in 2019. Small operators usually rent office space rather than invest the capital to buy.

Utilities

Utilities account for only 0.1% of total industry revenue.

Other

Other costs include administration fees, internet and legal service fees. This category accounts for 40.9% of total industry revenue in 2019, down from 44.4% in 2014.

Basis of Competition

Level & Trend

Competition in this industry is **High** and the trend is **Steady**

Internal competition

The Tax Preparation Services industry is highly competitive. The industry is characterized by a low to moderate level of concentration and includes many nonemployers and seasonal workers. The large number of companies operating in this industry makes it extremely competitive in terms of price, service and reputation of quality. Consumers often opt for the least expensive provider due to the limited scope of tax services. Consequently, price is a particularly important basis on which operators compete. However, companies that go above and beyond in terms of customer service often retain business because

consumers typically return to a firm they trust. Furthermore, consumers want a tax preparer that will increase their tax returns or reduce taxes by finding possible tax benefits.

Large operators also compete based on the number of franchises they own. Having more branch offices generates greater franchise fees. Furthermore, the number of offices from which a company operates can also affect the public's perception of the provider. Companies that operate on a national basis, such as H&R Block, have brand recognition among consumers. These businesses also spend more on advertising than small firms and nonemployers, which often rely

Competitive Landscape

Basis of Competition continued

on word-of-mouth recommendations between consumers. Operators have spent an increasing amount on advertising to promote their offerings, particularly regarding promotions on online services. By increasing exposure through advertising, firms can establish a brand name more easily. This can go a long way in attracting customers to a firm's services.

Over the past five years, solely brick-and-mortar companies have faced increasing competition from online filing services. Companies that have online filing systems increasingly pose competition for traditional operators because of the convenience they provide to customers, often at lower prices. However, online filing systems do not offer the same level of service as traditional companies. Larger operators have been best equipped to handle this threat, offering their own electronic filing services in the hope of ultimately attracting customers to offline services. Among firms that have electronic filing, companies compete on a variety of factors, including ease of use, cost, brand recognition and support quality. While large firms have been quick to adopt new technology, smaller firms do not have the capital necessary to establish an online system. Industry operators that provide electronic filing must be able to make quick changes, updating the process as regulations change. Companies that have greater technical resources can generally implement these modifications in a

shorter period of time. Overall, demand for tax preparation services from customers with simple tax filing requirements will increasingly be captured by online products, causing traditional operators to focus their resources on other market segments with more sophisticated tax filing requirements.

External competition

Tax preparation companies also compete with other entities external to this industry. For example, various firms in the Accounting Services industry (IBISWorld report 54121c) provide tax return preparation services. Furthermore, some individuals choose to complete their own taxes rather than hiring a professional tax preparer. Consequently, the industry competes with consumers, and to a limited extent, operators in the Software Publishing industry (IBISWorld report 51121) that provide tax preparation tutorials for consumers. Some industry operators have tried to capitalize on this by offering income tax courses for consumers; however, several states have regulations that limit such courses, including licensing and bonding requirements. Operators also compete with some state-sponsored online filing programs. Similarly, the federal government and 19 private sector companies have entered into the Free File Alliance. Under the Free File Alliance, tax preparers provide services at no cost to the taxpayer, and in return, the federal government does not offer a competing service.

Competitive Landscape

Barriers to Entry

Level & Trend
Barriers to Entry
in this industry are
Low and Increasing

There are few barriers to entry into the Tax Preparation Services industry. A large-scale operation is not essential to compete, and this is reflected by the fact that there are a large number of small businesses, including sole proprietors, operating in the industry. The top three players in the industry comprise just under 50.0% of total market share; meanwhile, close to 75.0% of firms are nonemployers. However, to compete with the industry's largest players, firms typically need to establish a reputation, which is difficult given the large pool of operators in the industry. As a result, many small companies choose to join, rather than contend with the industry's largest firms, which are all franchisers. This can pose a barrier in itself, as franchisers require fees to join their network. Furthermore, franchisees are generally required to pass tests that prove their ability to perform as tax preparers.

The industry's low barriers to entry result in a large number of small players, largely due to low start-up costs. Although knowledge of tax laws and accounting is helpful, almost anyone can be a paid tax preparer. Currently, tax preparers in 43 states are not required to have a state issued license. Until 2010, the IRS only required that paid tax preparers disclosed their social security number and signatures

Barriers to Entry checklist

Competition	High
Concentration	Medium
Life Cycle Stage	Mature
Capital Intensity	Low
Technology Change	Medium
Regulation and Policy	Medium
Industry Assistance	Low

SOURCE: WWW.IBISWORLD.COM

on the documents they prepared. Since 2011, however, the IRS has required that all paid tax preparers have a preparer tax identification number (PTIN). While this adds a new barrier to entry, a potential entrant only needs to submit an IRS W-12 form to receive a PTIN.

In addition to brand recognition, large firms also benefit from superior technology. Major players have their own electronic filing systems that enable consumers to prepare their own taxes. This puts large operators in a better position to compete with computer software companies that do not directly operate in the Tax Preparation Services industry. Small firms have a distinct disadvantage in this respect because they do not have the resources necessary to develop their own proprietary electronic filing systems.

Industry Globalization

Level & Trend
Globalization in this
industry is **Low** and
the trend is **Steady**

The Tax Preparation Services industry has a low level of globalization, with no international trade due to the service-oriented nature of activities provided by tax preparers. Each of the industry's largest players is domestically owned. Furthermore, as tax preparers need to

have knowledge of state tax laws, many small firms only operate on a local or regional basis. While H&R Block Inc. and Intuit Inc. both have operations overseas, the vast majority of the companies' respective retail establishments are located domestically in the United States.

Major Companies

Intuit Inc. | H&R Block Inc. | Other Companies

Major Players

(Market Share)

H&R Block Inc. 19.6%



Intuit Inc. 22.1%

SOURCE: WWW.IBISWORLD.COM

Player Performance

Intuit Inc.

Market Share: 22.1 %

Industry Brand Names

TurboTax

Intuit Inc. (Intuit) is a US-based provider of business and financial management solutions. Intuit was founded in 1983 and is currently headquartered in Mountain View, CA. The company focuses on providing services for small businesses, consumers and accounting professionals. This includes the development of products such as QuickBooks, TurboTax and Quicken, which help clients solve financial management problems, run small businesses, pay bills, file taxes and manage personal finances. In fiscal 2018 (year-end July; latest available data), the company generated \$6.0 billion in total revenue and employed 8,900 workers in offices across the United States, Canada, India, the United Kingdom, Australia and other locations.

Intuit operates through three major portfolios: small business; tax; and other business. The company's small business group focuses on providing financial and

business management software and services, employee management solutions and payment solutions. However, the company is active in the Tax Preparation Services industry through its tax portfolio, which consists of two smaller segments: consumer tax and accounting professionals. The company's consumer tax segment includes TurboTax income tax preparation products and services for consumers and small businesses. Products include TurboTax Basic for simple returns, TurboTax Deluxe for taxpayers who itemize deductions and TurboTax Premier for taxpayers who own investments or rental property.

Intuit has made several acquisitions during the current period. These include the purchase of Demandforce, an automated marketing and communications software, which the company later sold in 2016. Most

Intuit Inc. (US industry-specific segment) - financial performance*

Year**	Revenue (\$ million)	(% change)	Operating Income (\$ million)	(% change)
2013-14	1,579.9	7.2	484.0	7.2
2014-15	1,710.0	8.2	301.0	-37.8
2015-16	1,942.8	13.6	514.0	70.8
2016-17	2,091.0	7.6	563.4	9.6
2017-18	2,391.2	14.4	600.2	6.5
2018-19	2,510.1	5.0	630.1	5.0

*Estimates; **Year-end July

SOURCE: ANNUAL REPORT AND IBISWORLD

Major Companies

Player Performance continued

recently, the company acquired Applatix Inc. and TSheets in 2018, as well as Exactor Inc. in 2017.

Financial performance

As an industry leader in providing online tax options, Intuit was quick to expand to become a dominant industry player. In the company's early years, the rapid acceptance of online filing software and consumer preferences trending toward conducting services online has driven growth for Intuit. The company is widely known as a reliable product and an easy

entry point for those looking to do taxes on their own and has expanded significantly during the period as more consumers turned to self-preparation. Company growth was also achieved inorganically through numerous acquisitions, some of which bolstered industry-specific revenue. Overall, Intuit's domestic industry-specific revenue is expected to rise at an annualized rate of 9.7% over the five years to fiscal 2019 to reach \$2.5 billion, representing an industry market share of just above 22.0%.

Player Performance

H&R Block Inc.
Market Share: 19.6 %

H&R Block Inc. (H&R Block), founded in 1955 and based in Kansas City, MO, is one of the world's largest tax service providers. The company currently employs 2,700 full-time and 90,700 part-time or seasonal workers in the United States, Canada and Australia. The company has nearly 10,000 company-owned and franchise retail tax offices worldwide, of which 60.0% and 40.0% are company-owned and franchised, respectively. During the 2017-18 tax season, H&R Block and its franchises prepared 23.3 million tax returns globally, of which the vast majority were US tax returns. In fiscal 2018 (year-end

April; latest available data), the company reported \$3.2 billion in total revenue.

H&R Block receives industry-relevant revenue from two revenue streams: assisted tax preparation fees and do-it-yourself (DIY) tax preparation fees. This includes royalty fees from company-owned locations and franchises. The company also generates revenue from tax preparation software sales, online tax preparation fees, fees from refund anticipation checks, prepaid credit card fees and interest and fees on loans.

Over the past decade, the company has pursued several strategic initiatives. In 2014, the company produced a new

H&R Block Inc. (US industry-specific segment) - financial performance*

Year**	Revenue (\$ million)	(% change)	Operating Income (\$ million)	(% change)
2014-15	2,097.3	4.8	322.7	2.7
2015-16	2,124.5	1.3	261.7	-18.9
2016-17	2,121.3	-0.2	285.7	9.2
2017-18	2,190.3	3.3	425.0	48.8
2018-19	2,119.1	-3.3	289.3	-31.9
2019-20	2,224.5	5.0	303.7	5.0

*Estimates; **Year-end April

SOURCE: ANNUAL REPORT AND IBISWORLD

Major Companies

Player Performance continued

pricing strategy to adapt to the online environment, focusing on attracting customers with low-fee DIY tax services while offering added services for further fees. Just prior to the outset of the period, the company announced a strategic realignment that eliminated 350 full-time staff positions and 200 underperforming company-owned offices to streamline operations to improve its bottom line. Also prior to the current period in 2011, H&R Block sold its subsidiary RSM McGladrey, which offers assurance and consulting business services, to refocus on core tax preparation services.

Financial performance

Over the five years to fiscal 2019, IBISWorld expects H&R Block's US

industry-specific revenue to grow at an annualized rate of 1.2% to total \$2.2 billion. Growth in the company's domestic assisted tax preparation segment in recent years has been driven by new client growth, supported by improvements in the company's client service delivery model and successful promotions such as free federal 1040EZ offerings. Furthermore, the company has effectively tapped into the market for consumers to use software to prepare their own taxes. Strong performance in the company's DIY segment has been supported by a shift in product lineup and pricing and software improvements, such as enhanced import capabilities for current-year tax forms and prior-year returns.

Other Companies

In the Tax Preparation Services industry, the majority of firms are nonemployers. The relative ease with which a competitor can enter the market enables a large number of industry enterprises,

estimated at over 110,000 in 2019. Additionally, an increasing number of software firms and franchisers have started producing programs that enable consumers to file their own taxes.

Other Company Performance

Liberty Tax Inc.
Market Share: 1.2 %

Liberty Tax Inc. (Liberty Tax) operates more than 4,000 offices in the United States and Canada under the Liberty Tax Service brand name, with the company officially changing its name to Liberty Tax at the outset of the current period in July 2014. Of these, the vast majority of the company's locations are franchises, which provide fees toward company

revenue. The company generates the majority of its revenue in the United States, completing 1.5 million tax returns through US retail offices in the 2017 to 2018 tax season. In fiscal 2019 (year-end April), the company's domestic industry-specific revenue is anticipated to account for a 1.2% industry market share.

Operating Conditions

Capital Intensity | Technology & Systems | Revenue Volatility
Regulation & Policy | Industry Assistance

Capital Intensity

Level

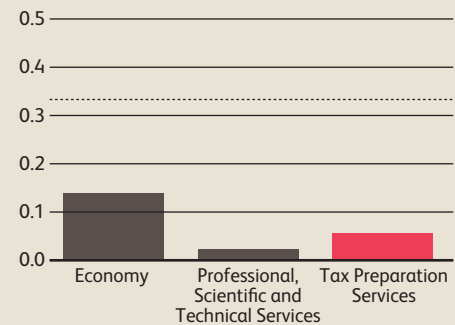
The level of capital intensity is **Low**

The Tax Preparation Services industry is highly labor-intensive, as much of the work done by industry operators must be completed manually. While operators have increasingly invested in capital equipment to automate some processes and offer software-related filing services to their clients, the vast majority of the day-to-day operations are completed by highly educated tax professionals. As a result, this industry exhibits a low level of capital intensity and IBISWorld estimates that for every dollar spent on wages in 2019, the average industry operator will allocate \$0.06 toward capital investment.

Wages represent the industry's largest expense, comprising an estimated 33.3% of revenue in 2019. Employees in this industry often have a complicated

Capital Intensity

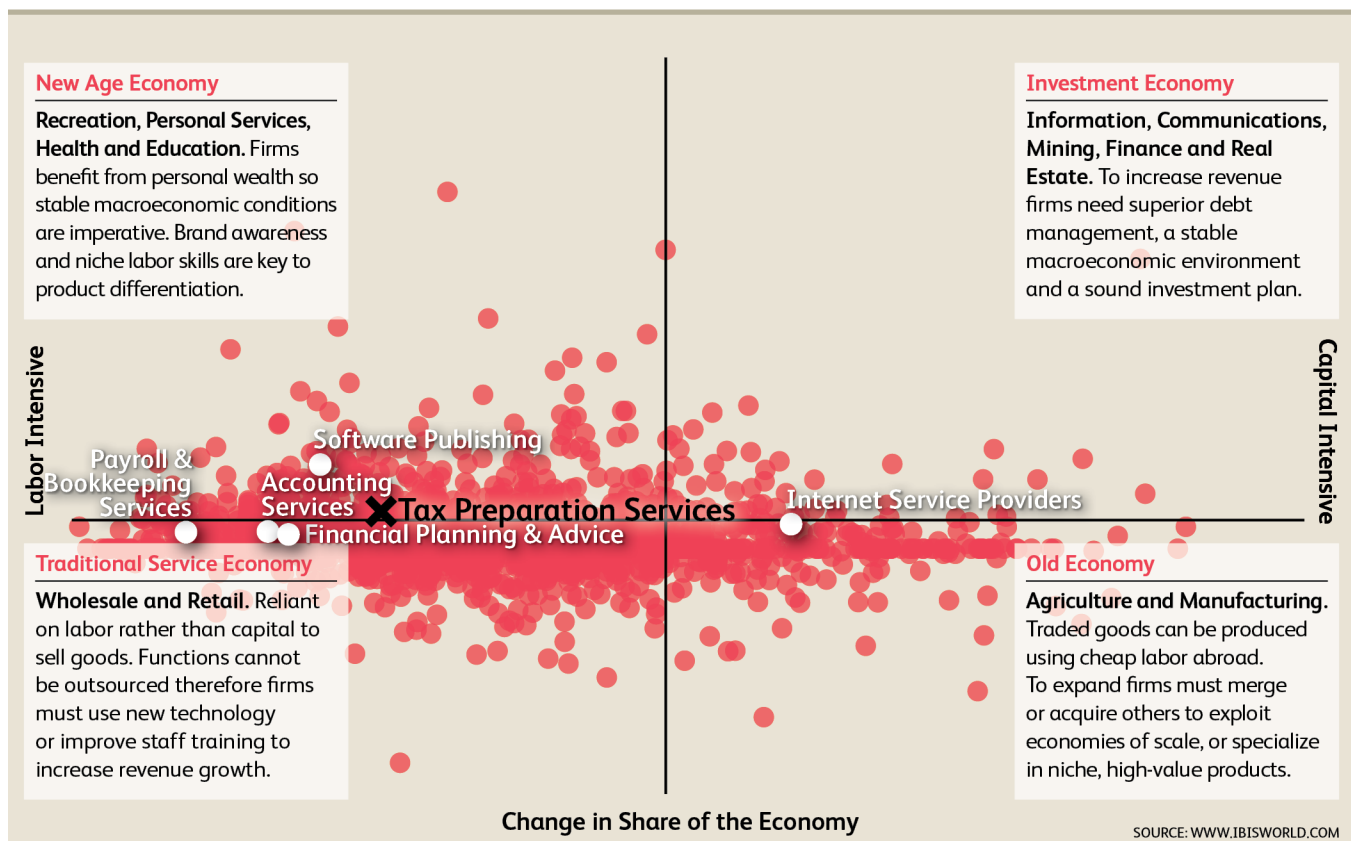
Capital units per labor unit



SOURCE: WWW.IBISWORLD.COM

understanding of tax law and accounting. Furthermore, specialist skills and knowledge are required, including

Tools of the Trade: Growth Strategies for Success



Operating Conditions

Capital Intensity continued

awareness of legislative changes and tax-related decisions made by the Internal Revenue Service (IRS). Federal tax codes are complex and people seeking out services from industry operators are often seeking to maximize their tax returns, meaning that there is a high degree of knowledge expected from industry employees to achieve the best outcome for clients. Employees are expected to have extensive knowledge of state and local tax codes, which also helps keep labor costs high for industry operators.

Most ongoing capital expenses are related to the upgrade and maintenance

of office and computer equipment, including specialized software packages and telecommunications equipment. Over the past decade, the industry has become increasingly capital intensive, as more tax filings have been completed online using computer software. As these e-filings have become more prominent, more tax professionals have invested in software that supports online filing. Many of the industry's largest companies have begun to offer online filing software to clients, which has boosted capital spending during the period.

Technology and Systems

Level

The level of technology change is **Medium**

Although tax preparation software has existed since the 1980s, its popularity significantly increased during the 2000s as electronic filing (e-filing) became more common. The proliferation of tax preparation software has been both a boon and a hindrance for the Tax Preparation Services industry. Although the software has automated the tax preparation process for many industry operators, it has also siphoned away some business from this industry as some customers have opted to use free online services to file their taxes instead of seeking out industry services. However, industry companies that have capitalized on e-filing's popularity and begun to offer online filing services have experienced solid growth over the period and, while online filing has enabled consumers to file their own taxes, most consumers still trust industry professionals with specific tax code knowledge to maximize their returns.

Electronic filing

E-filing enables tax preparers to submit tax returns over the internet using tax software programs. This practice has quickly become the industry standard because it minimizes the chance of human error and the documents are

transferred to the IRS instantaneously. Furthermore, tax refunds are typically received faster than they would be otherwise. While federal income taxes can be filed through e-filing, only some states currently have e-filing available for state taxes. In addition to retail locations, some tax preparation firms enable consumers to file taxes for free using the company's proprietary systems on the web. The company then attempts to upgrade the consumer to a premium package that includes state taxes or personal assistance from a tax professional.

Similarly, companies often try to sell tax-related financial products, such as refund anticipation loans (RALs). The provision of free filing packages has become increasingly common since 2003, when the Free File Alliance was started by the IRS and a group of partnering tax preparation firms.

As of 2011, the IRS requires that industry operators have a preparer tax identification number (PTIN). Previously, paid tax preparers only needed to disclose their social security number and place a signature on all forms filed. Industry operators also face new regulations that require continuing education courses annually.

Operating Conditions

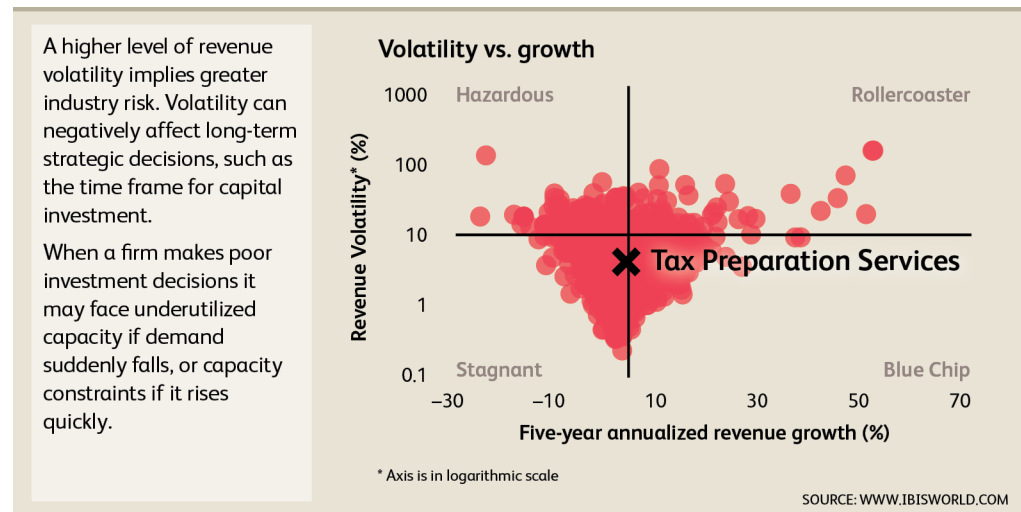
Revenue Volatility

Level

The level of volatility is **Medium**

The Tax Preparation Services industry has experienced a medium level of revenue volatility over the five years to 2019. Overall, substantial fluctuations in industry revenue are generally mitigated by the fact that taxpayers need to submit tax filings every year. As the industry continues to adjust to the increasing number of taxpayers using e-filing and the increasing number of self-filers, operators have managed to raise prices and offer new services to counteract the loss of some customers. According to the

Internal Revenue Service, 56.0% of American taxpayers use a paid tax professional to file returns, with that figure having declined slightly over the past decade. Although the number of consumers completing their own tax returns with tax preparation software has increased, many individuals still prefer the convenience and peace of mind offered by hiring a professional. Overall, industry revenue grew as much as 8.5% in 2017 and declined as much as 1.7% in 2016 during the current five-year period.



Regulation and Policy

Level & Trend

The level of Regulation is **Medium** and the trend is **Increasing**

Regulation of tax-preparers

With the exception of four states, anyone in the United States can legally engage in the business of preparing a federal tax return. The Internal Revenue Service (IRS), which is responsible for federal tax collection and tax law enforcement, requires that a paid tax preparer have a Preparer Tax Identification Number (PTIN). To obtain a PTIN, an individual must submit a W-12 form to the IRS. In addition, tax preparers who operate as CPAs, attorneys, enrolled agents, enrolled retirement plan agents or enrolled actuaries must comply with regulatory practice requirements for those professions.

At present, only seven states regulate tax preparation services: California, Connecticut, Illinois, Maryland, Nevada, Oregon and New York. In California, tax preparers must take a 60-hour course, purchase a \$5,000 tax preparer bond, apply to the state California State Education Council and pay a \$25.00 fee for a practicing license. In Oregon, preparers must hold a high school diploma or GED certificate, undertake 80 hours of tax law education, pass an examination and pay an annual license fee of \$80.00. Maryland's rules are similar to those of Oregon, except with a \$100.00 registration fee for two years. New York requirements

Operating Conditions

Regulation and Policy continued

additionally bar individuals who are delinquent in child support payments from holding a tax preparer license.

Regulatory efforts

For some years the IRS has been attempting to regulate preparers, imposing new regulations which were effective between 2011 and 2014 by implementing changes to IRS Circular 230. These regulations imposed requirements on tax return preparers to register with the IRS, complete competency testing and secure continuing education. Ultimately these requirements were invalidated by the Federal Court in 2014 in the case of *Loving vs. Internal Revenue Service*.

Yet efforts to regulate the Tax Preparation Services industry have remained ongoing, with new regulations currently being considered by Congress. In 2015, Congress received a bill for the Tax Return Preparer Competency Act, designed to ensure that tax return preparers demonstrate minimum standards of competency. This act would require preparers to obtain an identifying number, undertake examinations of competence, complete annual continuing education requirements and complete a background check.

Filing laws

There are also laws relating to the information provided on a tax return form. Industry operators are required to prepare taxes in accordance with IRS guidelines on behalf of their clients.

Under federal law, tax preparers must provide accurate information or they may face penalties, which prevents them from providing tax preparation services again. Income tax preparers must place their signatures and identification numbers on all documents that they prepare. To prevent fraud, industry operators must also retain copies of each tax return that they prepare for a period of three years. The Gramm-Leach-Bliley Act, which was signed into law in 1999, limits the amount of information that a tax preparer can disclose about their client.

Further regulation is required for firms that provide electronic filing. For example, there are specific advertising standards with which electronic filing companies must comply. Furthermore, firms that provide electronic filing services are also required to give filing information to the taxpayer. Since 2012, firms that prepare 11 or more federal individual or trust tax returns will be required to use IRS e-filing.

In 2003, the federal government and 19 private sector companies entered into the Free File Alliance. Since the program began, over 50.0 million Americans have filed through the Free File Alliance, which is available to all taxpayers who earn a gross income of \$66,000 or less. Under the program, tax preparers provide services at no cost to the taxpayer, and in return, the federal government does not offer a competing service. Additionally, some twenty states have taken initiative and formed agreements through the Alliance.

Operating Conditions

Industry Assistance

Level & Trend
The level of
Industry Assistance
is **Low** and the
trend is **Steady**

Although the Tax Preparation Services industry is not affected by tariffs, it receives assistance from the government indirectly. In 2003, the IRS and a group of partnering tax preparation firms created the Free File Alliance. The Free File Alliance enables taxpayers that have an annual income of less than \$66,000 to file their federal taxes for free. Thus far, the IRS' involvement with the Free File Alliance has prevented the agency from creating a competing system of its own,

which has kept the industry's electronic filing business relevant. Industry operators also receive support from industry groups and associations, including the National Association of Computerized Tax Processors and National Association of Tax Professionals. These groups hold events and continuing education courses for members. They also provide industry standards, research, news and other tools, including marketing advice.

Key Statistics

Industry Data

	Revenue (\$m)	Industry Value Added (\$m)	Establishments	Enterprises	Employment	Exports	Imports	Wages (\$m)	Domestic Demand	Total employees in the US (mil)
2010	8,891.3	5,124.9	118,645	108,190	308,212	--	--	3,186.6	N/A	38,162.0
2011	8,936.9	5,442.2	119,164	109,324	294,271	--	--	3,359.9	N/A	38,777.6
2012	8,842.8	5,340.1	118,350	108,299	292,397	--	--	3,235.5	N/A	39,778.6
2013	9,204.4	4,363.3	117,780	107,310	277,202	--	--	2,918.2	N/A	38,995.4
2014	9,597.4	4,934.1	123,510	109,623	290,964	--	--	3,235.4	N/A	40,279.6
2015	10,076.6	5,458.8	124,840	110,888	287,094	--	--	3,352.7	N/A	41,636.7
2016	9,907.6	5,652.4	124,416	110,694	285,520	--	--	3,403.4	N/A	42,050.1
2017	10,751.9	5,908.5	129,505	114,856	301,980	--	--	3,618.3	N/A	42,866.5
2018	11,042.4	6,184.3	131,899	116,868	307,863	--	--	3,694.3	N/A	43,825.0
2019	11,335.9	6,293.0	134,475	119,035	314,413	--	--	3,776.8	N/A	44,804.7
2020	11,487.1	6,381.9	136,693	120,965	318,661	--	--	3,827.7	N/A	45,715.0
2021	11,560.2	6,426.8	138,815	122,864	322,166	--	--	3,866.2	N/A	46,217.8
2022	11,644.3	6,447.3	140,627	124,510	325,373	--	--	3,902.6	N/A	46,726.2
2023	11,765.9	6,522.0	142,668	126,345	329,540	--	--	3,950.8	N/A	47,427.1
2024	11,952.0	6,639.0	145,264	128,656	335,238	--	--	4,017.9	N/A	48,182.8
Sector Rank	22/35	20/35	9/35	9/35	10/35	N/A	N/A	22/35	N/A	N/A
Economy Rank	493/694	353/694	57/694	62/694	113/694	N/A	N/A	349/694	N/A	N/A

Annual Change

	Revenue (%)	Industry Value Added (%)	Establishments (%)	Enterprises (%)	Employment (%)	Exports (%)	Imports (%)	Wages (%)	Domestic Demand (%)	Total employees in the US (%)
2011	0.5	6.2	0.4	1.0	-4.5	N/A	N/A	5.4	N/A	1.6
2012	-1.1	-1.9	-0.7	-0.9	-0.6	N/A	N/A	-3.7	N/A	2.6
2013	4.1	-18.3	-0.5	-0.9	-5.2	N/A	N/A	-9.8	N/A	-2.0
2014	4.3	13.1	4.9	2.2	5.0	N/A	N/A	10.9	N/A	3.3
2015	5.0	10.6	1.1	1.2	-1.3	N/A	N/A	3.6	N/A	3.4
2016	-1.7	3.5	-0.3	-0.2	-0.5	N/A	N/A	1.5	N/A	1.0
2017	8.5	4.5	4.1	3.8	5.8	N/A	N/A	6.3	N/A	1.9
2018	2.7	4.7	1.8	1.8	1.9	N/A	N/A	2.1	N/A	2.2
2019	2.7	1.8	2.0	1.9	2.1	N/A	N/A	2.2	N/A	2.2
2020	1.3	1.4	1.6	1.6	1.4	N/A	N/A	1.3	N/A	2.0
2021	0.6	0.7	1.6	1.6	1.1	N/A	N/A	1.0	N/A	1.1
2022	0.7	0.3	1.3	1.3	1.0	N/A	N/A	0.9	N/A	1.1
2023	1.0	1.2	1.5	1.5	1.3	N/A	N/A	1.2	N/A	1.5
2024	1.6	1.8	1.8	1.8	1.7	N/A	N/A	1.7	N/A	1.6
Sector Rank	17/35	24/35	18/35	18/35	21/35	N/A	N/A	21/35	N/A	N/A
Economy Rank	163/694	326/694	197/694	199/694	219/694	N/A	N/A	209/694	N/A	N/A

Key Ratios

	IVA/Revenue (%)	Imports/Demand (%)	Exports/Revenue (%)	Revenue per Employee (\$'000)	Wages/Revenue (%)	Employees per Est.	Average Wage (\$)	Share of the Economy (%)
2010	57.64	N/A	N/A	28.85	35.84	2.60	10,338.99	0.03
2011	60.90	N/A	N/A	30.37	37.60	2.47	11,417.71	0.03
2012	60.39	N/A	N/A	30.24	36.59	2.47	11,065.44	0.03
2013	47.40	N/A	N/A	33.20	31.70	2.35	10,527.34	0.03
2014	51.41	N/A	N/A	32.98	33.71	2.36	11,119.59	0.03
2015	54.17	N/A	N/A	35.10	33.27	2.30	11,678.06	0.03
2016	57.05	N/A	N/A	34.70	34.35	2.29	11,920.01	0.03
2017	54.95	N/A	N/A	35.60	33.65	2.33	11,981.92	0.03
2018	56.01	N/A	N/A	35.87	33.46	2.33	11,999.82	0.03
2019	55.51	N/A	N/A	36.05	33.32	2.34	12,012.23	0.03
2020	55.56	N/A	N/A	36.05	33.32	2.33	12,011.82	0.03
2021	55.59	N/A	N/A	35.88	33.44	2.32	12,000.65	0.03
2022	55.37	N/A	N/A	35.79	33.52	2.31	11,994.23	0.03
2023	55.43	N/A	N/A	35.70	33.58	2.31	11,988.83	0.03
2024	55.55	N/A	N/A	35.65	33.62	2.31	11,985.22	0.03
Sector Rank	10/35	N/A	N/A	35/35	24/35	24/35	35/35	20/35
Economy Rank	75/694	N/A	N/A	686/694	127/694	598/694	676/694	353/694

Figures are in inflation-adjusted 2019 dollars. Rank refers to 2019 data.

SOURCE: WWW.IBISWORLD.COM

Industry Financial Ratios

	Apr 2014 - Mar 2015	Apr 2015 - Mar 2016	Apr 2016 - Mar 2017	Apr 2017 - Mar 2018	Apr 2017 - Mar 2018 by company revenue		
					Small (<\$10m)	Medium (\$10-50m)	Large (>\$50m)
Liquidity Ratios							
Current Ratio	1.8	1.6	1.7	1.6	1.6	1.9	1.1
Quick Ratio	1.3	1.2	1.4	1.4	1.4	1.4	1.1
Sales / Receivables (Trade Receivables Turnover)	10.6	12.0	12.1	10.8	16.2	8.2	8.6
Days' Receivables	34.4	30.4	30.2	33.8	22.5	44.5	42.4
Cost of Sales / Inventory (Inventory Turnover)	n/c	n/c	n/c	n/c	n/c	n/c	n/c
Days' Inventory	n/a	n/a	0.4	0.4	0.4	0.4	0.4
Cost of Sales / Payables (Payables Turnover)	103.5	92.5	84.5	75.7	122.4	59.2	87.3
Days' Payables	3.5	3.9	4.3	4.8	3.0	6.2	4.2
Sales / Working Capital	13.4	14.3	15.0	15.9	18.2	11.3	53.7
Coverage Ratios							
Earnings Before Interest & Taxes (EBIT) / Interest	13.9	13.3	14.9	14.4	16.4	13.8	11.9
Net Profit + Dep., Depletion, Amort. / Current Maturities LT Debt	3.3	5.7	2.8	6.9	n/a	n/a	n/a
Leverage Ratios							
Fixed Assets / Net Worth	0.3	0.3	0.3	0.3	0.3	0.2	0.4
Debt / Net Worth	2.2	2.5	2.5	2.2	2.4	1.1	3.9
Tangible Net Worth	22.1	17.5	22.2	25.6	20.0	36.5	23.5
Operating Ratios							
Profit before Taxes / Net Worth, %	56.6	51.7	56.0	66.7	88.1	37.5	67.3
Profit before Taxes / Total Assets, %	17.1	17.7	15.5	18.0	21.7	13.4	17.6
Sales / Net Fixed Assets	43.6	47.9	49.1	45.8	60.1	38.2	66.3
Sales / Total Assets (Asset Turnover)	2.9	2.8	2.8	2.7	2.5	2.8	3.0
Cash Flow & Debt Service Ratios (% of sales)							
Cash from Trading	59.0	54.2	53.2	58.0	71.2	51.3	36.0
Cash after Operations	9.6	9.0	8.3	8.5	10.9	6.6	7.3
Net Cash after Operations	8.0	8.9	7.0	8.7	11.5	5.5	8.3
Cash after Debt Amortization	1.0	0.7	2.0	1.2	2.1	0.7	0.3
Debt Service P&I Coverage	6.9	5.8	5.7	5.1	5.0	5.9	6.0
Interest Coverage (Operating Cash)	13.9	10.6	12.1	16.1	15.6	18.1	26.1
Assets, %							
Cash & Equivalents	20.9	19.8	20.4	21.9	24.9	19.5	14.7
Trade Receivables (net)	28.2	27.5	28.8	28.8	25.0	35.0	29.8
Inventory	3.1	4.2	2.9	2.6	2.1	3.3	3.2
All Other Current Assets	10.4	10.0	9.4	8.6	6.7	10.6	11.7
Total Current Assets	62.6	61.5	61.4	61.8	58.7	68.5	59.5
Fixed Assets (net)	12.6	11.2	9.9	12.2	13.5	10.5	10.7
Intangibles (net)	13.8	15.2	16.4	13.9	15.8	9.0	17.5
All Other Non-Current Assets	11.1	12.1	12.3	12.0	12.0	11.9	12.3
Total Assets	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total Assets (\$m)	2,809.7	3,022.4	3,525.7	2,689.0	369.8	965.6	1,353.7
Liabilities, %							
Notes Payable-Short Term	9.4	15.6	10.5	10.2	12.9	6.1	8.5
Current Maturities L/T/D	2.8	2.9	2.2	2.7	3.1	2.5	1.7
Trade Payables	7.1	6.0	6.6	5.2	5.2	5.7	3.8
Income Taxes Payable	0.1	0.1	0.2	0.2	0.4	n/a	n/a
All Other Current Liabilities	23.3	21.6	23.2	23.7	20.5	27.1	29.0
Total Current Liabilities	42.6	46.2	42.7	42.0	42.1	41.4	43.0
Long Term Debt	13.9	11.4	11.7	11.6	15.2	5.8	9.9
Deferred Taxes	0.2	0.4	0.1	n/a	n/a	n/a	0.2
All Other Non-Current Liabilities	7.3	9.3	6.9	6.9	6.9	7.3	5.9
Net Worth	35.9	32.7	38.6	39.5	35.8	45.5	41.0
Total Liabilities & Net Worth (\$m)	2,809.7	3,022.4	3,525.7	2,689.0	369.8	965.6	1,353.7
Maximum Number of Statements Used	256	241	259	236	131	74	31

Source: RMA Annual Statement Studies, rmahq.org. RMA data for all industries is derived directly from more than 260,000 statements of member financial institutions' borrowers and prospects.

Note: For a full description of the ratios refer to the Key Statistics chapter online.



Jargon & Glossary

Industry Jargon

FREE FILE ALLIANCE A public-private partnership with the IRS and a group of tax preparation providers that provides free electronic tax filing services for US taxpayers.

INTERNAL REVENUE SERVICE (IRS) The federal government agency responsible for collecting taxes and enforcing the internal revenue code.

PREPARER TAX IDENTIFICATION NUMBER (PTIN) A unique identification number that is required for all paid tax return preparers.

REFUND ANTICIPATION LOAN (RAL) A loan that is made by a lender based on an anticipated federal income tax refund.

IBISWorld Glossary

BARRIERS TO ENTRY High barriers to entry mean that new companies struggle to enter an industry, while low barriers mean it is easy for new companies to enter an industry.

CAPITAL INTENSITY Compares the amount of money spent on capital (plant, machinery and equipment) with that spent on labor. IBISWorld uses the ratio of depreciation to wages as a proxy for capital intensity. High capital intensity is more than \$0.333 of capital to \$1 of labor; medium is \$0.125 to \$0.333 of capital to \$1 of labor; low is less than \$0.125 of capital for every \$1 of labor.

CONSTANT PRICES The dollar figures in the Key Statistics table, including forecasts, are adjusted for inflation using the current year (i.e. year published) as the base year. This removes the impact of changes in the purchasing power of the dollar, leaving only the "real" growth or decline in industry metrics. The inflation adjustments in IBISWorld's reports are made using the US Bureau of Economic Analysis' implicit GDP price deflator.

DOMESTIC DEMAND Spending on industry goods and services within the United States, regardless of their country of origin. It is derived by adding imports to industry revenue, and then subtracting exports.

EMPLOYMENT The number of permanent, part-time, temporary and seasonal employees, working proprietors, partners, managers and executives within the industry.

ENTERPRISE A division that is separately managed and keeps management accounts. Each enterprise consists of one or more establishments that are under common ownership or control.

ESTABLISHMENT The smallest type of accounting unit within an enterprise, an establishment is a single physical location where business is conducted or where services or industrial operations are performed. Multiple establishments under common control make up an enterprise.

EXPORTS Total value of industry goods and services sold by US companies to customers abroad.

IMPORTS Total value of industry goods and services brought in from foreign countries to be sold in the United States.

INDUSTRY CONCENTRATION An indicator of the dominance of the top four players in an industry. Concentration is considered high if the top players account for more than 70 % of industry revenue. Medium is 40 % to 70 % of industry revenue. Low is less than 40 %.

INDUSTRY REVENUE The total sales of industry goods and services (exclusive of excise and sales tax); subsidies on production; all other operating income from outside the firm (such as commission income, repair and service income, and rent, leasing and hiring income); and capital work done by rental or lease. Receipts from interest royalties, dividends and the sale of fixed tangible assets are excluded.

INDUSTRY VALUE ADDED (IVA) The market value of goods and services produced by the industry minus the cost of goods and services used in production. IVA is also described as the industry's contribution to GDP, or profit plus wages and depreciation.

INTERNATIONAL TRADE The level of international trade is determined by ratios of exports to revenue and imports to domestic demand. For exports/revenue: low is less than 5 %, medium is 5 % to 20 %, and high is more than 20 %. Imports/domestic demand: low is less than 5 %, medium is 5 % to 35 %, and high is more than 35 %.

LIFE CYCLE All industries go through periods of growth, maturity and decline. IBISWorld determines an industry's life cycle by considering its growth rate (measured by IVA) compared with GDP; the growth rate of the number of establishments; the amount of change the industry's products are undergoing; the rate of technological change; and the level of customer acceptance of industry products and services.

NONEMPLOYING ESTABLISHMENT Businesses with no paid employment or payroll, also known as nonemployers. These are mostly set up by self-employed individuals.

PROFIT IBISWorld uses earnings before interest and tax (EBIT) as an indicator of a company's profitability. It is calculated as revenue minus expenses, excluding interest and tax.

VOLATILITY The level of volatility is determined by averaging the absolute change in revenue in each of the past five years. Volatility levels: very high is more than $\pm 20\%$; high volatility is $\pm 10\%$ to $\pm 20\%$; moderate volatility is $\pm 3\%$ to $\pm 10\%$; and low volatility is less than $\pm 3\%$.

WAGES The gross total wages and salaries of all employees in the industry. The cost of benefits is also included in this figure.

At IBISWorld we know that industry intelligence is more than assembling facts

It is combining data with analysis to answer the questions that successful businesses ask

Identify high growth, emerging & shrinking markets
Arm yourself with the latest industry intelligence
Assess competitive threats from existing & new entrants
Benchmark your performance against the competition
Make speedy market-ready, profit-maximizing decisions



Who is IBISWorld?

We are strategists, analysts, researchers, and marketers. We provide answers to information-hungry, time-poor businesses. Our goal is to provide real world answers that matter to your business in our 700 US industry reports. When tough strategic, budget, sales and marketing decisions need to be made, our suite of Industry and Risk intelligence products give you deeply-researched answers quickly.

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